

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TECHNOLOGY PROPERTIES LIMITED LLC
and MCM PORTFOLIO LLC,

Plaintiffs,

v.

CANON, INC. et al.,

Defendants.

No. C 14-3640 CW

ORDER DENYING
MOTION FOR
JUDGMENT ON THE
PLEADINGS

(Docket No. 302)

TECHNOLOGY PROPERTIES LIMITED LLC
and MCM PORTFOLIO LLC,

Plaintiffs,

v.

HEWLETT-PACKARD COMPANY,

Defendant.

No. C 14-3643 CW

(Docket No. 88)

TECHNOLOGY PROPERTIES LIMITED LLC
and MCM PORTFOLIO LLC,

Plaintiffs,

v.

NEWEGG INC. et al.,

Defendants.

No. C 14-3645 CW

(Docket No. 74)

TECHNOLOGY PROPERTIES LIMITED LLC
and MCM PORTFOLIO LLC,

Plaintiffs,

v.

SEIKO EPSON CORPORATION, et al.,

Defendants.

No. C 14-3646 CW

(Docket No. 85)

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2 These matters come before the Court on Defendants' Motion for
3 Judgment on the Pleadings. Docket No. 302.¹ Defendants argue
4 that their judgment of noninfringement from the International
5 Trade Commission (ITC) bars Plaintiffs from proceeding with claims
6 for infringement before this Court. There is no basis for a
7 district court to be bound by a decision of the ITC; indeed,
8 Congress explicitly stated that such decisions "cannot have
9 preclusive effect" in subsequent district court litigation.
10 Defendants' motion is DENIED.
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12 BACKGROUND

13 On March 27, 2012, Plaintiff Technology Properties Limited
14 LLC (TPL) filed a complaint in the ITC under section 337 of the
15 Tariff Act of 1930, as amended, 19 U.S.C. § 1337, alleging in part
16 that the memory card readers used in Defendants' products infringe
17 the three patents-in-suit. Docket No. 12-1. The ITC instituted
18 an investigation. Following discovery, a Markman² hearing and a
19 four-day evidentiary hearing, the ITC's Administrative Law Judge
20 issued an Initial Determination ruling that Defendants' products
21 did not infringe the asserted patents. TPL petitioned the ITC for
22 review; after briefing, the ITC affirmed the ALJ's determination
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25 ¹ Docket numbers correspond to the docket for case number
26 14-3640, unless otherwise noted.

27 ² Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed.
28 Cir. 1995) (aff'd 517 U.S. 370 (1996)).

1 of noninfringement. TPL did not appeal the ITC opinion to the
2 Federal Circuit.

3 The day after TPL filed its complaint in the ITC, it also
4 filed complaints against Defendants in the United States District
5 Court for the Eastern District of Texas. Docket No. 1; Case No.
6 14-3643, Docket No. 1; Case No. 14-3645, Docket No. 1; Case No.
7 14-3646, Docket No. 1. TPL's allegations included the
8 infringement claims from the ITC complaint. Pursuant to 28 U.S.C.
9 § 1659, the court granted mandatory stays of the cases before it
10 pending the ITC investigation. Docket No. 13. Following issuance
11 of the ITC opinion, TPL moved to lift the stays in the Eastern
12 District of Texas. Docket No. 19. The court lifted the stays and
13 consolidated the TPL cases for pretrial purposes. Docket No. 21.
14 TPL then filed amended complaints, adding co-Plaintiff and patent
15 owner MCM Portfolio LLC. Docket Nos. 97, 102, 87 and 101. The
16 cases were transferred to this Court on August 8, 2014. Docket
17 No. 163. On May 1, 2015, Defendants filed the instant motion for
18 judgment on the pleadings. Docket No. 302.

21 LEGAL STANDARD

22 Rule 12(c) of the Federal Rules of Civil Procedure provides
23 that "[a]fter the pleadings are closed--but early enough not to
24 delay trial--a party may move for judgment on the pleadings."
25 Such a motion, like one brought under Rule 12(b)(6), challenges
26 "the legal sufficiency of the opposing party's pleadings." Qwest
27 Communications Corp. v. City of Berkeley, 208 F.R.D. 288, 291
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1 (N.D. Cal. 2002). Judgment on the pleadings may be granted when
2 the moving party clearly establishes that no material issue of
3 fact remains to be resolved and that the moving party is entitled
4 to judgment as a matter of law. Hal Roach Studios, Inc. v.
5 Richard Feiner & Co., 896 F.2d 1542, 1550 (9th Cir. 1989).

6 DISCUSSION

7 Defendants' motion is founded on the so-called Kessler
8 doctrine, which has its origins in a 1907 case from the United
9 States Supreme Court, Kessler v. Eldred, 206 U.S. 285 (1907). In
10 that case Eldred held a patent for an electric lamp lighter and
11 brought a complaint in federal court in Indiana alleging
12 infringement against Kessler, a manufacturer and retailer of
13 electric cigar lighters. Id. at 285. The Indiana court found
14 that Kessler's device did not infringe; this finding was affirmed
15 on appeal. Id. at 286. Subsequently, Eldred brought an
16 infringement lawsuit against a user of Kessler's lighters. Id.
17 Kessler then sued Eldred in federal court in Illinois, seeking an
18 injunction barring Eldred from prosecuting further infringement
19 claims against Kessler or Kessler's customers. Id. at 287.
20 Kessler appealed an adverse circuit court ruling to the United
21 States Supreme Court, which held that the Indiana court's judgment
22 "settled finally and everywhere . . . that Kessler had the right
23 to manufacture, use, and sell the electric cigar lighter. . . ."
24 Id. at 288. The Supreme Court further explained that Eldred had a
25 duty "to recognize and yield to that right everywhere and always,"
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1 and that permitting Eldred to persist in his infringement suits
2 would allow him to "destroy Kessler's judgment right." Id. at
3 289. Thus the Kessler doctrine may be distilled as a rule
4 allowing a party with a judgment of noninfringement to cite that
5 judgment to bar subsequent claims of infringement.

6 But for a few select applications³, the Kessler doctrine lay
7 dormant until the Federal Circuit revived it last year in Brain
8 Life, LLC v. Elekta, Inc., 746 F.3d 1045 (Fed. Cir. 2014). In
9 that case, MIDCO sued Elekta alleging that Elekta's products
10 infringed MIDCO's patent. Id. at 1048. The case proceeded to
11 trial and the jury found infringement, but on appeal the Federal
12 Circuit vacated the jury's finding of infringement and remanded to
13 the district court with instructions to enter a judgment of
14 noninfringement as a matter of law. Id. The district court
15 entered final judgment in favor of Elekta. Id. MIDCO
16 unsuccessfully appealed, rendering the trial court judgment final.
17 Id.

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20 Subsequently, Brain Life acquired a license to MIDCO's patent
21 and filed infringement suits against several parties, including
22 Elekta. Id. at 1050-51. Brain Life moved to dismiss Elekta's
23 claim preclusion and issue preclusion defenses and Elekta moved
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25 ³ See MGA, Inc. v. General Motors Corp., 827 F.2d 729 (Fed.
26 Cir. 1987) (applying Kessler to affirm summary judgment against
27 patentee where alleged infringer already had a judgment of
28 noninfringement from prior state court litigation in which the
infringement question was subsumed by a state law question about a
licensing agreement).

1 for summary judgment on its claim preclusion defense. Id. at
2 1051. The district court granted Elekta's motion for summary
3 judgment, finding first that there was no material difference
4 between the products already litigated in the current case and the
5 products at issue in the MIDCO case, and also concluding that
6 Elekta's judgment in its favor from the MIDCO litigation barred
7 Brain Life's claims. Id.

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9 On appeal, the Federal Circuit engaged in a lengthy
10 discussion of claim preclusion (also known as res judicata), issue
11 preclusion (which encompasses collateral estoppel) and the Kessler
12 doctrine. Id. at 1053-59. The court held that claim preclusion
13 barred the assertion of acts of infringement that predated the
14 MIDCO litigation, but that claim preclusion would not bar suit
15 alleging infringing acts or products created after the MIDCO case.
16 Id. at 1054. With regard to issue preclusion, the court held that
17 only claims that were actually litigated were barred, so that
18 doctrine's preclusive effect did not apply to products created
19 after the MIDCO case. Id. at 1055. The court then turned to the
20 Kessler doctrine, synthesizing the three principles as follows:
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22 As explained above, however, traditional notions of
23 claim preclusion do not apply when a patentee accuses
24 new acts of infringement, i.e., post-final judgment, in
25 a second suit—even where the products are the same in
26 both suits. Such claims are barred under general
27 preclusion principles only to the extent they can be
28 barred by issue preclusion, with its attendant
limitations. The Kessler Doctrine fills the gap between
these preclusion doctrines, however, allowing an
adjudged non-infringer to avoid repeated harassment for

1 continuing its business as usual post-final judgment in
2 a patent action where circumstances justify that result.

3 Id. at 1056. Thus, by operation of the Kessler doctrine, Brain
4 Life was barred from asserting that the accused products from the
5 MIDCO litigation infringed its patent, even for acts of
6 infringement occurring post-judgment. Id. at 1058. Further,
7 Brain Life was barred from alleging infringement for subsequent
8 versions of the previously-accused Elekta products where those
9 subsequent versions are "essentially the same" as the previously-
10 accused products. Id. at 1057-58 (quoting Foster v. Hallco Mfg.
11 Co., 947 F.2d 469, 479-80 (Fed. Cir. 1991)). The court only
12 permitted claims involving a product created after the MIDCO
13 litigation to proceed to trial, holding that none of the
14 preclusion doctrines discussed above applied. Id. at 1058.

15 In their motion, Defendants argue that, like the defendants
16 in Kessler and Brain Life, they have a prior judgment of
17 noninfringement, albeit from the ITC, and that the Kessler
18 doctrine bars relitigation of TPL's infringement claims. While
19 only a few of this suit's accused products were at issue before
20 the ITC, both parties agree that the newly accused products
21 included in this suit are "essentially the same" as those under
22 consideration before the ITC, so if the Kessler doctrine applies,
23 then Defendants are entitled to judgment on the pleadings. Motion
24 Brief at 6; Response at 4. The obvious impediment to the
25 application of the Kessler doctrine in this case, forming the
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1 basis of Plaintiffs' response, is that Defendants' judgment came
2 from the ITC and not a state or federal court. Defendants offer
3 several arguments in support of treating an ITC decision as a
4 court decision and the Court now addresses each in turn.

5 First, Defendants argue that the Supreme Court recognized
6 that the identity of the first court does not matter and quote the
7 following language from Kessler: "If rights between litigants are
8 once established by the final judgment of a court of competent
9 jurisdiction those rights must be recognized in every way, and
10 wherever the judgment is entitled to respect, by those who are
11 bound by it." Motion Brief at 9, Reply Brief (Docket No. 313) at
12 3 (quoting Kessler, 206 U.S. at 289). There being no dispute that
13 the ITC had jurisdiction over the investigation, Defendants argue
14 that the ITC's judgment is "entitled to respect." There are a few
15 problems with this argument. First, there is no possibility that
16 the Supreme Court had ITC judgments in mind when it decided
17 Kessler because the ITC's predecessor agency, the United States
18 Tariff Commission, was not created until nine years after Kessler
19 in 1916. Frischer & Co. v. Bakelite Corp., 39 F.2d 247, 254
20 (C.C.P.A. 1930). Second, when a court is considering the binding
21 nature of an administrative agency's decision given pursuant to a
22 statutory grant of authority⁴, the relevant inquiry is not whether
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27 ⁴ In this case, the ITC acted pursuant to its authority under
28 section 337 of the Tariff Act of 1930, as amended by the Trade
Reform Act of 1974.

1 the court believes the decision ought to be binding, but whether
2 Congress did not intend to grant the agency authority to provide
3 binding decisions. Texas Instruments, Inc. v. Cypress
4 Semiconductor Corp., 90 F.3d 1558, 1568 (Fed. Cir. 1996) ("an
5 administrative agency decision, issued pursuant to a statute,
6 cannot have preclusive effect when Congress, either expressly or
7 impliedly, indicated that it intended otherwise.") Congress has
8 expressly indicated that ITC decisions are not entitled to have
9 preclusive effect, explaining that:

11 [I]n patent-based cases, the Commission considers, for
12 its own purposes under section 337, the status of
13 imports with respect to the claims of U.S. patents. The
14 Commission's findings neither purport to be, nor can
15 they be, regarded as binding interpretations of the U.S.
16 patent laws in particular factual contexts. Therefore,
17 it seems clear that any disposition of a Commission
18 action by a Federal Court should not have res judicata
19 or collateral estoppel effect in cases before such
20 courts.

21 Id. (quoting S.Rep. No. 1298, 93d Cong., 2d Sess. 196 (1974),
22 reprinted in 1974 U.S.C.C.A.N. 7186, 7329). In their Reply Brief,
23 Defendants make much of the fact that this quote came from a
24 Senate Report and not from "'Congress' and 'statutory authority.'"
25 Reply Brief at 5. However, the Federal Circuit has consistently
26 interpreted this legislative history to mean that "Congress did
27 not intend decisions of the ITC on patent issues to have
28 preclusive effect." Id.; accord Bio-Tech. Gen. Corp. v.
Genentech, Inc., 80 F.3d 1553, 1564 (Fed. Cir. 1996) ("[W]e hold
that the ITC's prior decision cannot have claim preclusive effect

1 in the district court."). Defendants cite no contrary statements
2 showing that Congress intended the opposite, despite the fact that
3 this interpretation has been on the books for decades.

4 Defendants also include a footnote citing a recent Supreme
5 Court case, B&B Hardware, Inc. v. Hargis Indus., Inc., 135 S. Ct.
6 1293, 1299 (2015), for the notion that administrative agency
7 findings can have a preclusive effect in subsequent federal court
8 proceedings. Motion Brief at 9 n.5. This case actually
9 undermines Defendants' position because the opinion emphasized
10 that courts must defer to Congress's view that an agency's action
11 should not be preclusive. Id. at 1305. Where, as here, there is
12 an explicit indication that Congress did not intend the ITC's
13 decision to have preclusive effect, the Court cannot grant the
14 decision such an effect.
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16 Indeed, Defendants concede that ITC decisions are not binding
17 on district courts as a matter of claim preclusion or issue
18 preclusion. Motion Brief at 10. This is particularly salient to
19 the question before the Court today, considering the Kessler
20 doctrine's raison d'être. As the Federal Circuit articulated in
21 Brain Life, the Kessler doctrine "fills the gap" between these
22 preclusion doctrines. Brain Life, 746 F.3d at 1056. Plaintiffs
23 argue, and the Court agrees, that because these preclusion
24 doctrines do not apply in the context of ITC decisions and
25 subsequent district court litigation, there is no gap for the
26 Kessler doctrine to fill.
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1 Finally, Defendants argue that TPL⁵ cannot evade the binding
2 effect of the ITC's finding of noninfringement by simply not
3 appealing to the Federal Circuit. Motion Brief at 11, Reply Brief
4 at 7. In response, Plaintiffs explain the practical reasons for
5 TPL's decision not to appeal. Plaintiffs state that they are
6 claiming monetary damages and, of course, the ITC is not empowered
7 to award such damages. Response at 4. Additionally, Plaintiffs
8 assert their right to a jury trial on the infringement issues and
9 note that the only way for them to exercise that right is to
10 pursue litigation in a district court. Response at 3-4. The
11 Federal Circuit has previously noted that granting ITC decisions
12 preclusive effect could run afoul of the Constitution. Texas
13 Instruments, 90 F.3d at 1569 n.10 ("Moreover, allowing prior ITC
14 decisions on patent infringement questions to have preclusive
15 effect would potentially deprive the parties of their Seventh
16 Amendment right to a jury trial on the issue of infringement.").
17 Defendants offer no response to this persuasive Constitutional
18 argument in their Reply Brief.

19 It is true that TPL could have appealed the ITC decision but
20 chose not to. Nonetheless, no authority establishes that the
21 Court can hold that decision against Plaintiffs in this context.
22 The cases Defendants cite in support of their contention that
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27 ⁵ Defendants do not address how or whether this argument
28 applies to Plaintiff MCM Portfolio LLC, which was not a party at
the ITC.

1 failure to appeal bars relitigation of the decided issue all
 2 transpired in distinguishable procedural circumstances.⁶ The fact
 3 remains that legal precedents regarding the preclusionary effect
 4 of an ITC decision were established long before the parties'
 5 dispute began. Application of this longstanding rule to the facts
 6 of this case yields another chance for TPL to raise its
 7 infringement claims. Though the other side of the coin is that
 8 Defendants have to defend against the same claims again, the Court
 9 is not bound by the ITC decision and will not employ the Kessler
 10 doctrine to bar Plaintiffs' claims of infringement from this
 11 forum. Accordingly, Defendants' motion is DENIED.

12 IT IS SO ORDERED.

13 Dated: 06/24/2015



14 CLAUDIA WILKEN
 15 United States District Judge
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21 ⁶ Notably, the only case Defendants cite that proceeded in an
 22 administrative law context, a district court order in McLellan v.
 23 Perry, considered a state administrative tribunal and a subsequent
 24 federal case brought under 28 U.S.C. § 1983. It is well
 25 established that "[a]s a matter of federal common law, federal
 26 courts give preclusive effect to the findings of state
 27 administrative tribunals in subsequent actions under § 1983."
 28 McLellan v. Perry, 2014 WL 1309291 at *2 (D. Nev.) (quoting Miller
v. County of Santa Cruz, 39 F.3d 1030, 1032 (9th Cir. 1994)).
 That the district court was bound by the administrative agency's
 determinations in that case sheds little light on the issue
 currently before the Court where there is no such rule.